

# Redefining Economic Success in Washington: 3 Keys to Quality Growth

House Finance Committee Work Session

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# Washington Business Competitiveness Study -- Final Presentation



Available online:

- 1) Executive summary
- 2) Full Report
- 3) Appendices

- SWOT industry cut sheets
- Engagement detailed notes
- Foundational items and themes
- Business competitiveness metrics

# Acknowledgments

**In 2021**, the Washington State Legislature commissioned a comprehensive business competitiveness analysis of the state's economy by the Legislative Committee on Economic Development and International Relations (LCEDIR), to be administered by the Office of the Lieutenant Governor. This report is the result of that effort produced through a collaborative process involving numerous contributors.

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**cai** community  
attributes inc

We would like to acknowledge the substantial contributions and guidance that the Lieutenant Governor's office provided throughout this process.



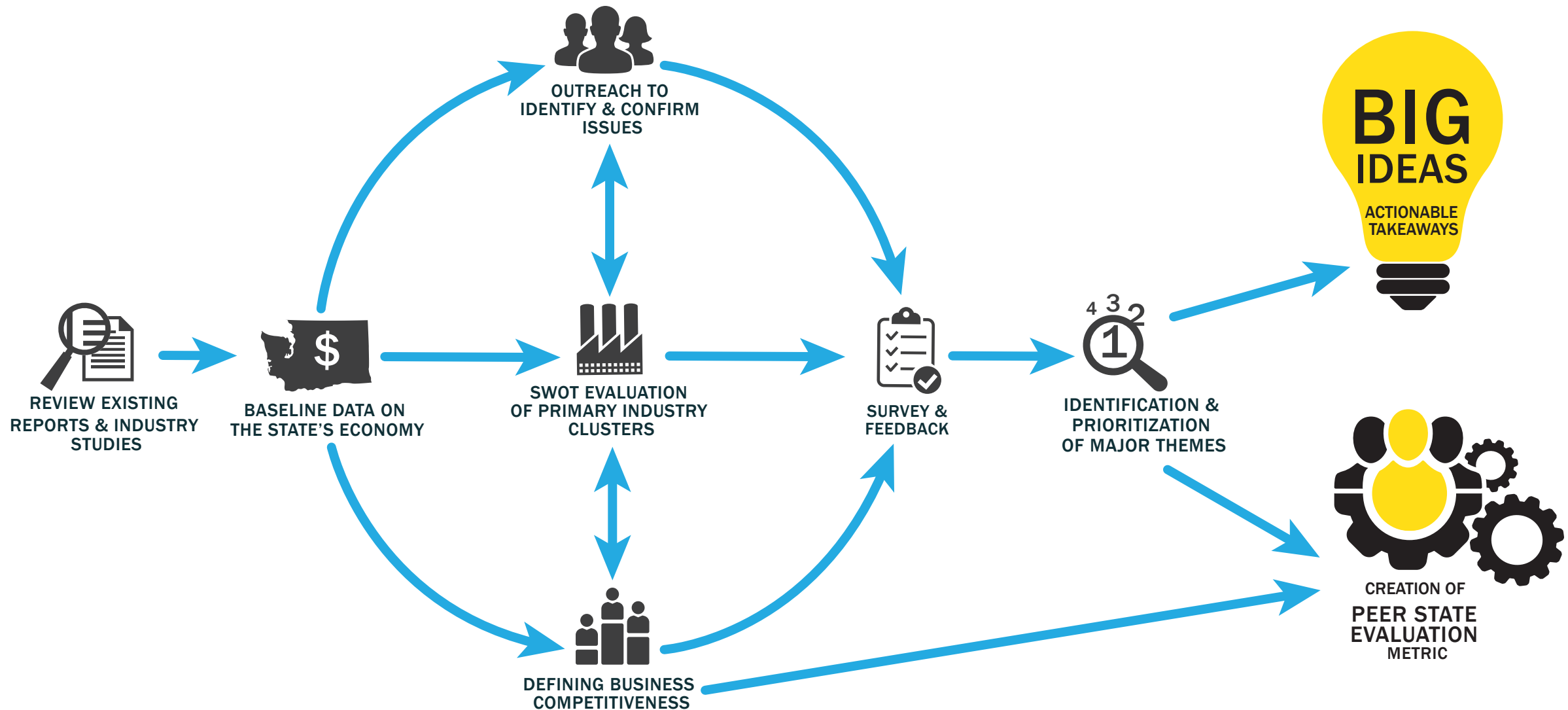
**Lieutenant Governor Denny Heck**  
**David Bremer, Director of Policy and International Relations**  
**Phil Gardner, Chief of Staff**

RCW 43.15.070: "The Legislative Committee on Economic Development and International Relations is authorized to...assist the legislature in developing a comprehensive and consistent economic development policy."



We would also like to thank the LCEDIR committee members for their insights and contributions:

- Representative **Liz Berry**
- Senator **Sharon Brown**
- Representative **Keith Goehner**
- Senator **Bob Hasegawa**
- Senator **Curtis King**
- Representative **Debra Lekanoff**
- Senator **Ann Rivers**
- Senator **Christine Rolfes**
- Representative **Amy Walen**
- Senator **Lisa Wellman**
- Representative **J.T. Wilcox**
- Representative **Alex Ybarra**

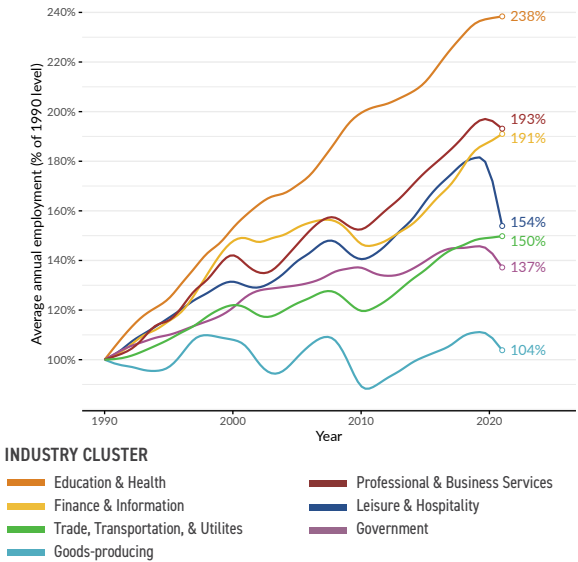




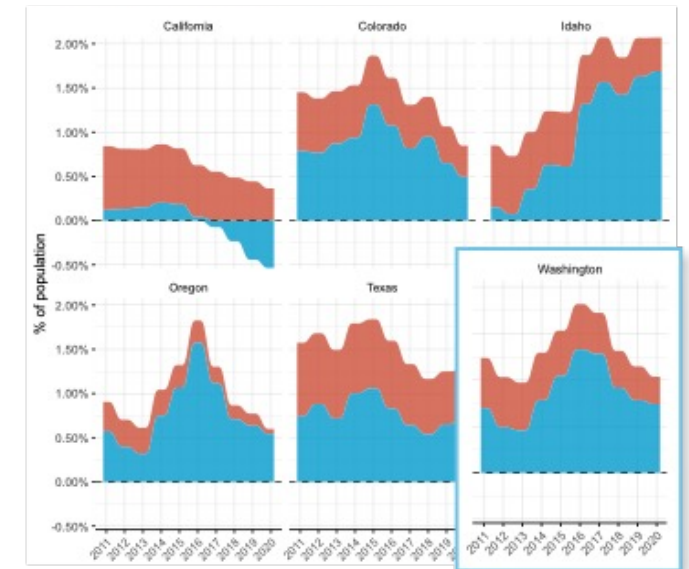
## State of the State -- Washington has transitioned its economy into a knowledge and tech leader

- Strong growth limited by an aging workforce and skills gap, decades in the making
- Household incomes have gained compared to the U.S. average across the income distribution, but inequality has widened
- Housing production hasn't kept pace with population or job growth, triggering persistent affordability and homelessness crises
- Businesses are struggling to compete for labor and access to resources in a changing economy

### WASHINGTON STATE SUPERSECTOR CHANGE IN EMPLOYMENT SINCE 1990



### POPULATION CHANGE COMPONENTS, BY STATE

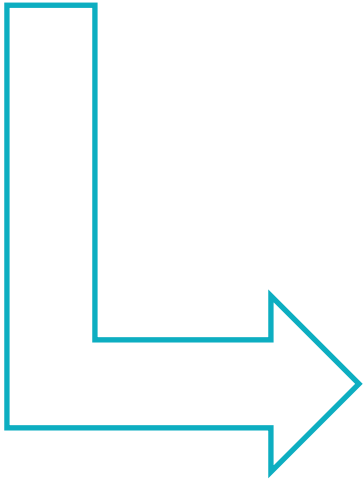


POPULATION CHANGE COMPONENT

NATURAL INCREASE      RESIDUAL NET MIGRATION

# Engaged a diverse set of groups and stakeholders for insights

- Contacted 16 organizations
- Conducted 25 stakeholder interviews
- Held 10 focus groups



- Washington State Commission of Asian Pacific American Affairs
- Washington State Women's Commission (WSWC)
- WSWC Stakeholders
- Quinault Prosperity, Health, and Human Services Subcommittee
- Latino Education and Training Institute (LETI)
- Washington State Labor Council (WSLC)
- Seattle Metropolitan Chamber of Commerce REACH

# Outreach summary findings



Infrastructure gaps create barriers to participate in the economy for employees and employers



High-quality education opens the door to high-quality jobs



Lack of affordable housing impacts recruitment and retention



Promote and provide vocational training opportunities early on



The shift to digital work highlighted a need for reliable broadband and technology literacy



Lack of affordable and available childcare impacting workforce

# SWOT Results -- Laying the groundwork for future economic development strategies



## **Strengths that have made WA a leader in business growth for decades**

- Talent attraction with consistent in-migration.
- Strong Information and Communication Technology (ICT) presence and skilled tech labor.
- Established, high performing network of public, private and training institutions.
- Robust infrastructure and transportation system (including ports).
- Low energy costs, clean energy, natural assets, and amenities.



## **Challenges that threaten WA's position as an economic leader**

- Skilled labor shortages.
- Access to housing that is affordable to all workers.
- Childcare affordability and supply limitations.
- The impacts of climate change.
- Stable funding sources to support future infrastructure projects, including maintaining and preserving current assets.
- Access to capital for high-growth potential business.
- Complex and costly business and development regulatory frameworks.



# Reframing business competitiveness centered on outcomes

- Equitable outcomes accelerate economic growth
- Prioritize desired outcomes
  - Creating quality jobs
  - Shared opportunities to build wealth

# Quality economic growth --translating capacity building into realized outcomes

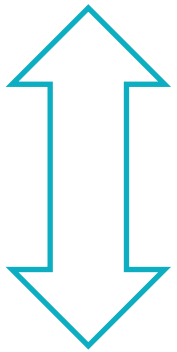
Key  
Capacity Builders



A competitive economy  
is fueled by equitable  
talent development



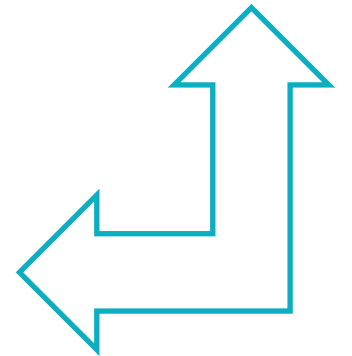
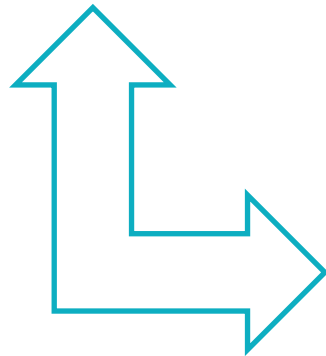
A competitive economy  
continuously regenerates  
through innovation



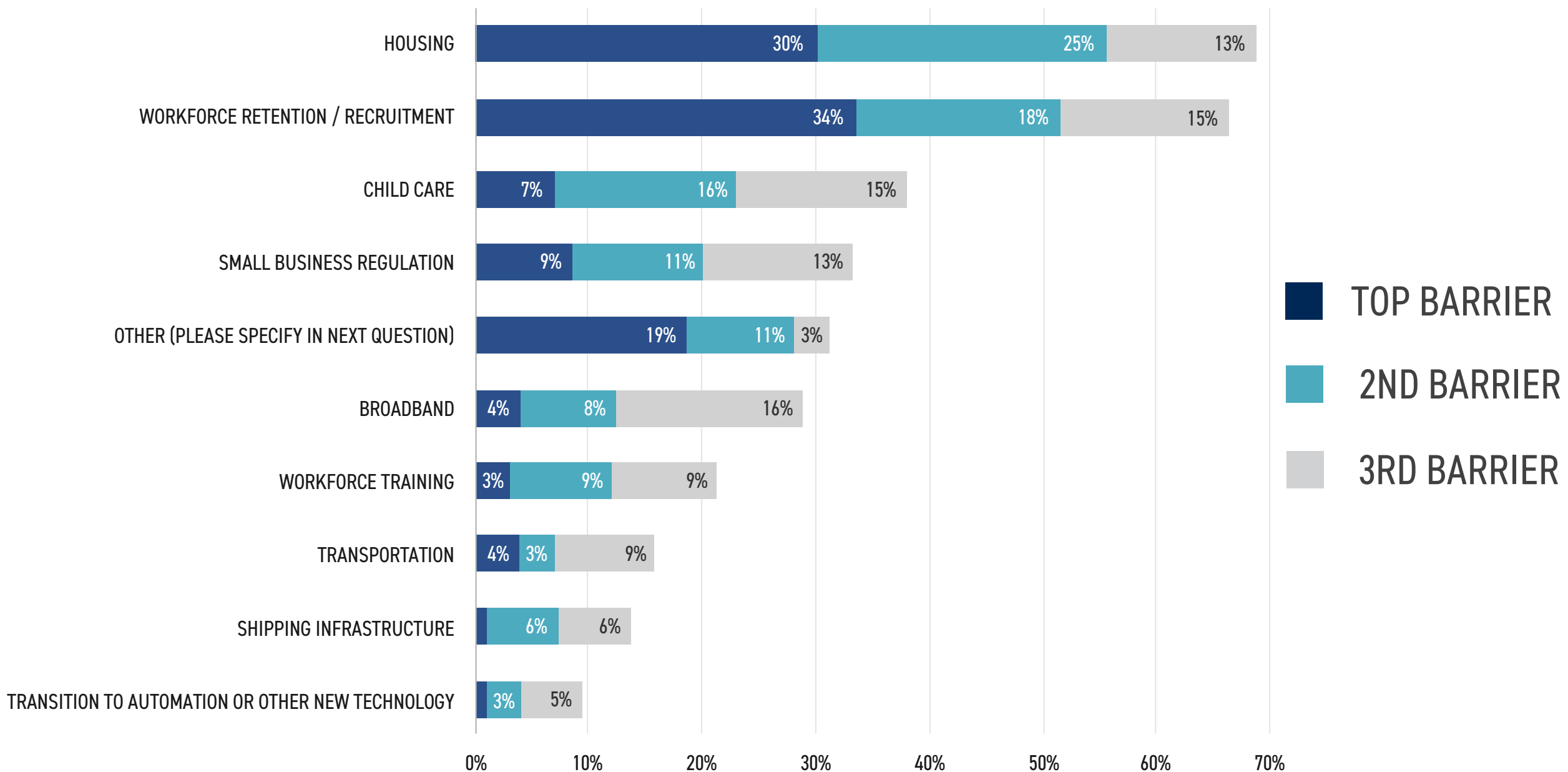
Key  
Realized Outcomes

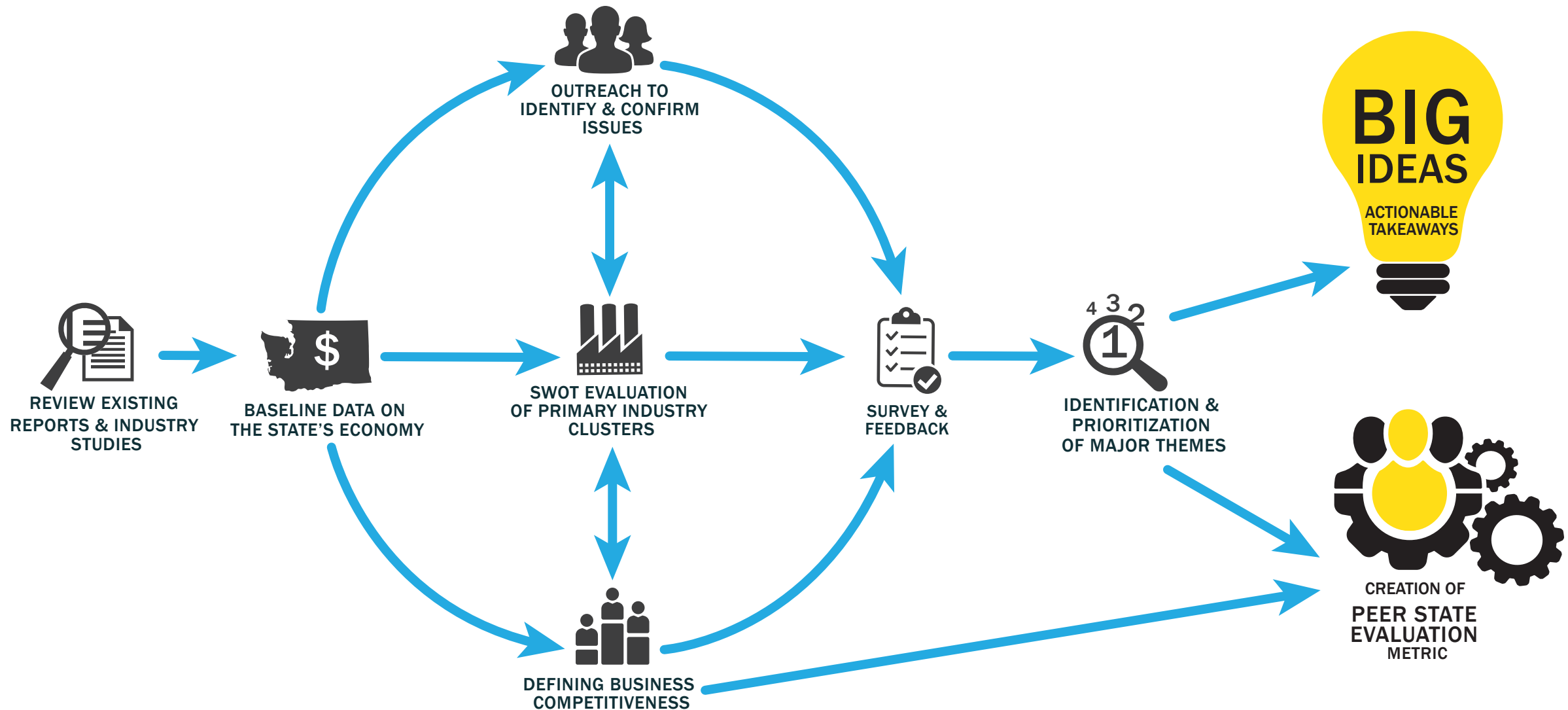


Produces abundant quality  
jobs and equitable  
opportunities to build wealth



# Survey participants consistently identified top priorities





# Build

more housing of all types that is affordable to all residents

# Equip

the workforce for success, and close the skills gap

and

# Revitalize

entrepreneurship and make it easier to do business

Washington State has the fewest number of housing units per household of any state in the country

140K units underproduced through 2019



# Big Idea # 1 : Build more housing

- The housing crises is getting worse, over the last decade the number of units built has not kept pace with household formation
- 44% of Washington renter households are cost burdened (spend more than 30% of their gross income on housing)
- Chronically undersupplied housing is a principal driver of the state's homelessness crises, which is nearly double the national average (30 per 10,000 residents in WA compared to 18 per 10,000 nationally)
- Homeownership is becoming more unattainable
  - The Black homeownership rate is 11.5% lower in WA than the national average, ranking last among peer states, and the 7<sup>th</sup> lowest state nationally



**1.06**

housing units per household  
Washington State compared to  
1.14 Nationally



**190K**

Number of units  
Washington would need to build  
to achieve the national ratio



**11.5%**

lower Black homeownership  
rate than the U.S. average, last  
among peer states

Washington State needs to train 200,000 more skilled workers over the next 10 years to keep pace with job openings

A 30% increase over current rates

# Big Idea # 2: Equip the workforce for success

- Businesses across the state are experiencing persistent and worsening labor shortages
- Job openings and the share of the workforce aged 55 and older at at record highs
- There is a chronic gap in the training and skillset development of the workforce across the state relative to labor needs
- In-migration of skilled workers helps offset about half of the annual shortage, but 85% of those have a bachelor's or graduate degrees, leaving the largest training gap for those with associates degrees, certificates, and apprenticeships



**25%**

percentage of workers  
over age 55, an all time high



**221K**

job openings statewide,  
a 40% increase from pre-pandemic  
levels (2018 and 2019)



**2.5%**

percentage of workers quitting their job  
monthly (30% annualized),  
the 10th lowest state rate

Washington State is forming  
30% fewer high growth  
potential businesses than a  
decade ago

Ranking 4<sup>th</sup> lowest among peer states

# Big Idea # 3: Revitalize entrepreneurship

## Focus on high growth businesses with quality jobs

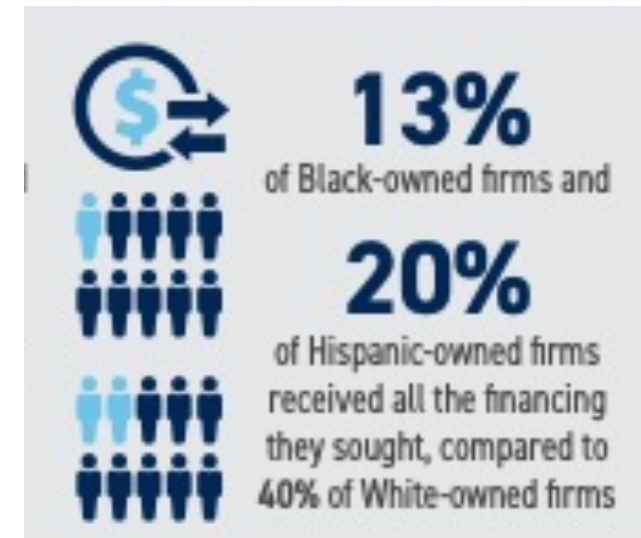
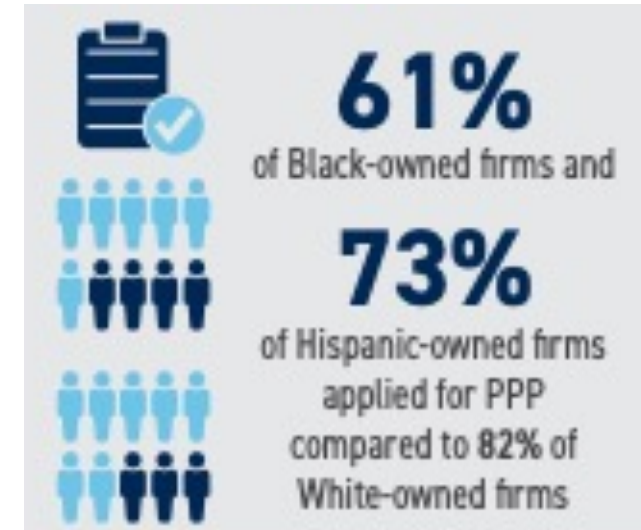
- Only 1/3 of jobs in Washington State pay enough to support a family and their living expenses absent social programs

## Limited access to capital (for small and emerging businesses)

- BIPOC owned firms owned by were half as likely as White-owned firms to use a financial services provider

## Burdensome regulatory environment

- Limited sites available for business expansion, Puget Sound is the 4<sup>th</sup> most regulated region in the country for permitting and land use

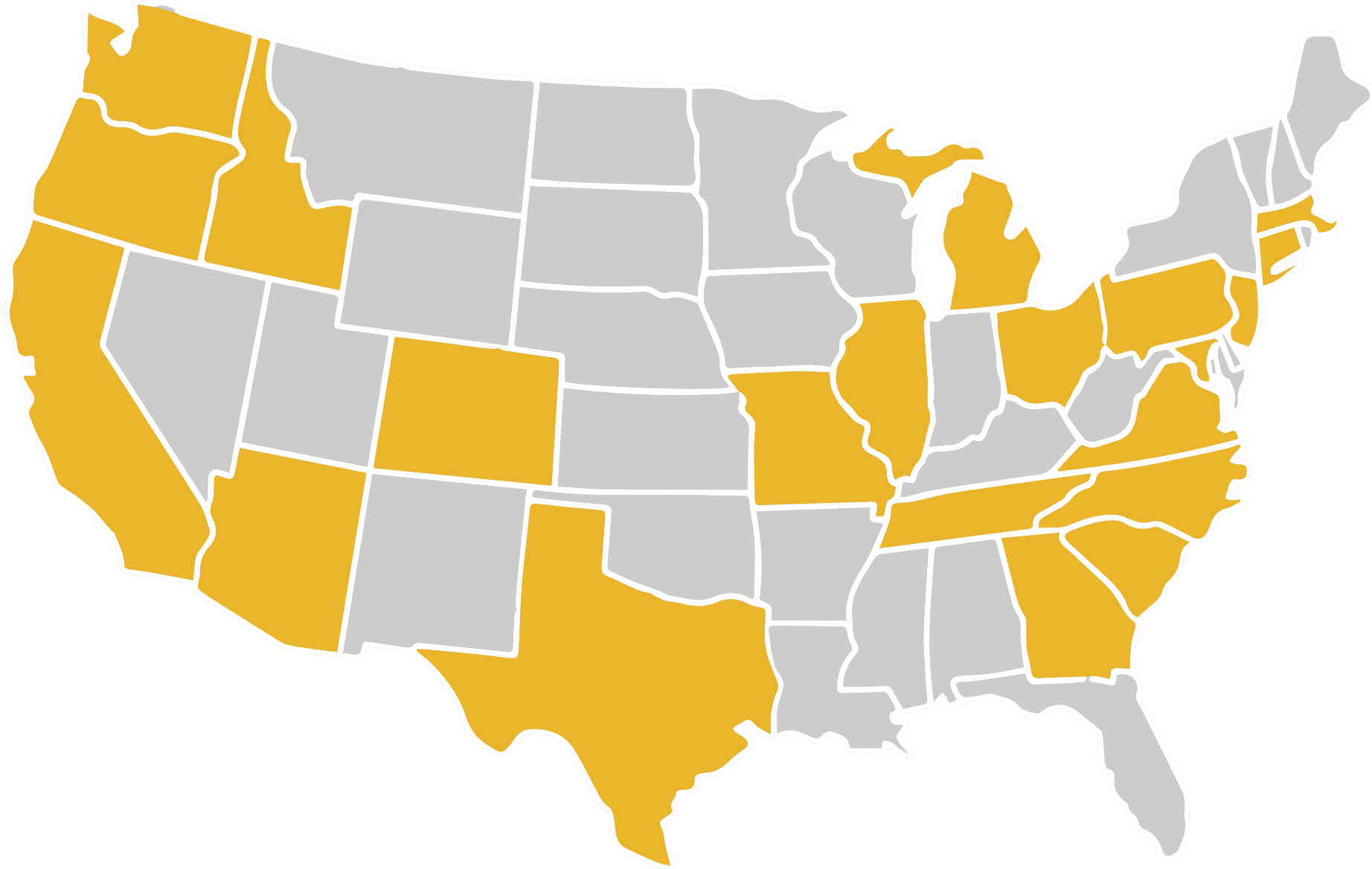


# Where to go next: Measuring success

- The status quo is not producing desired outcomes
- Identifying and prioritizing desired outcomes is foundational step
- Important to measure progress on capacity builders and outcomes



# 20 Peer states selected for business competitiveness metrics



# Washington is 1st in capacity building, but 15<sup>th</sup> in realized outcomes

Overall Rank  
#1

WA Peer State Rank

Capacity Builders							
Bachelor's All (2019)	Bachelor's Black (2019)	Associate's All (2019)	Associate's Black (2019)	Adv Industries All (2020)	Adv Industries Black (2020)	Jobs in Young Firms (2020)	Jobs Productivity (2020)
9	8	3	4	1	4	5	1

Overall Rank  
#15

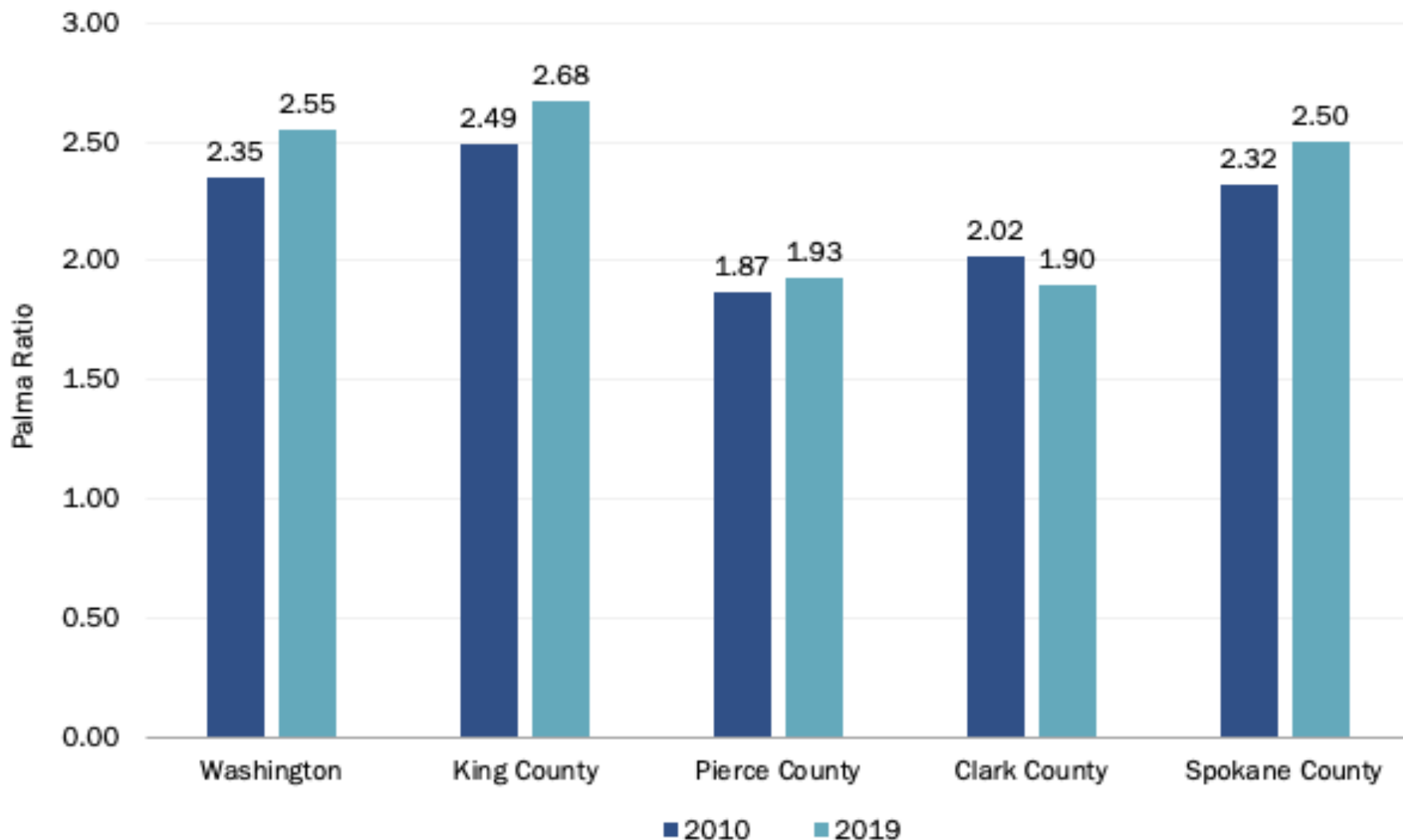
WA Peer State Rank

Realized Outcomes					
Quality Jobs All (2019)	Quality Jobs Black (2019)	Homeownership All (2019)	Homeownership Black (2019)	High Growth Potential Businesses (2020)	High Growth Potential Businesses, BIPOC-owned (2020)
8	5	17	21	18	8

Realized Outcomes:  
Quality Jobs and High Growth Businesses

# Income distribution is becoming more unequal in Washington

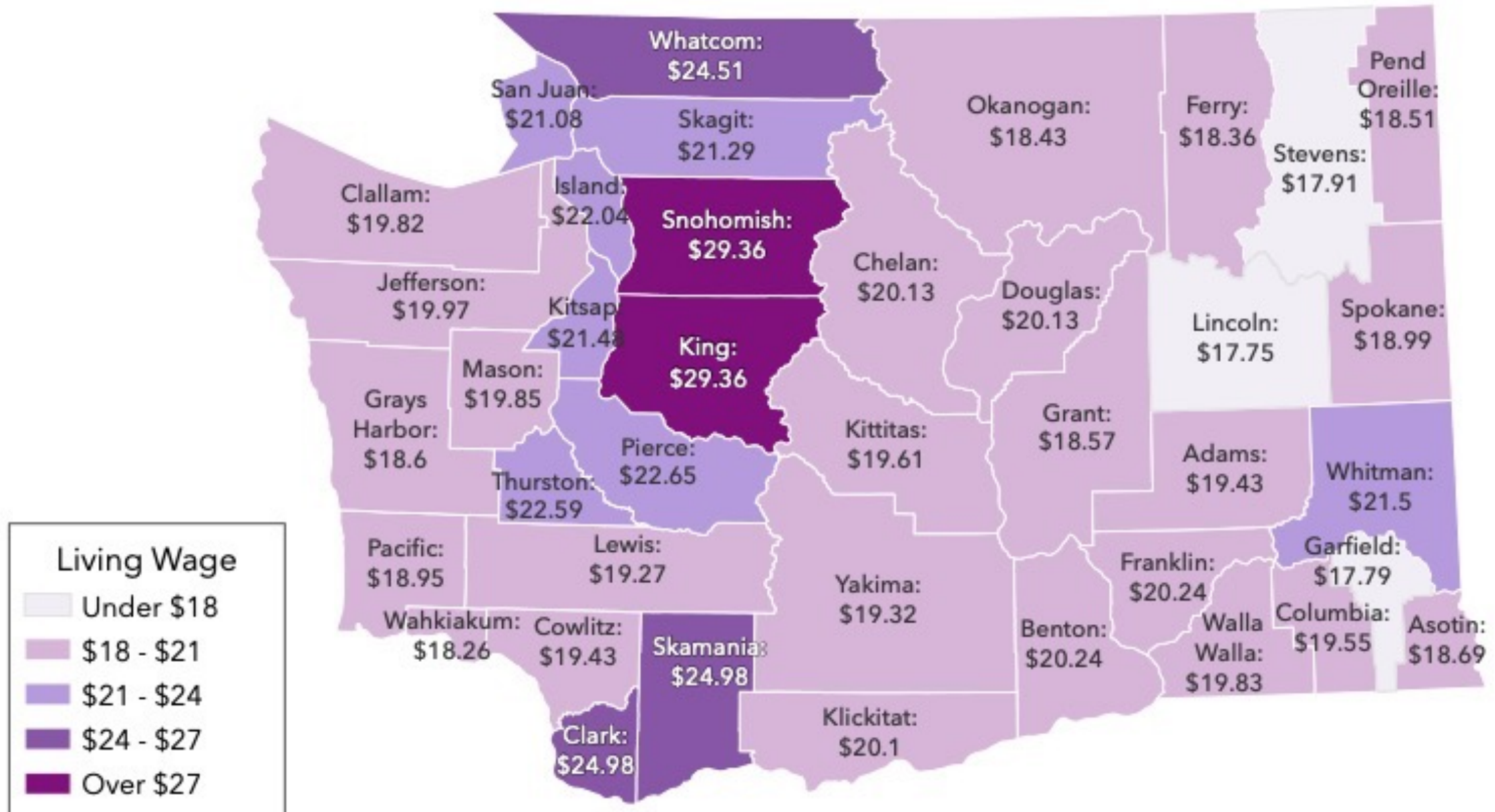
Palma ratio compares the sum of top 10 percentile of incomes to the sum of the bottom 40 percentile



The top 10% of households cumulatively earn 255% of what the bottom 40% earn

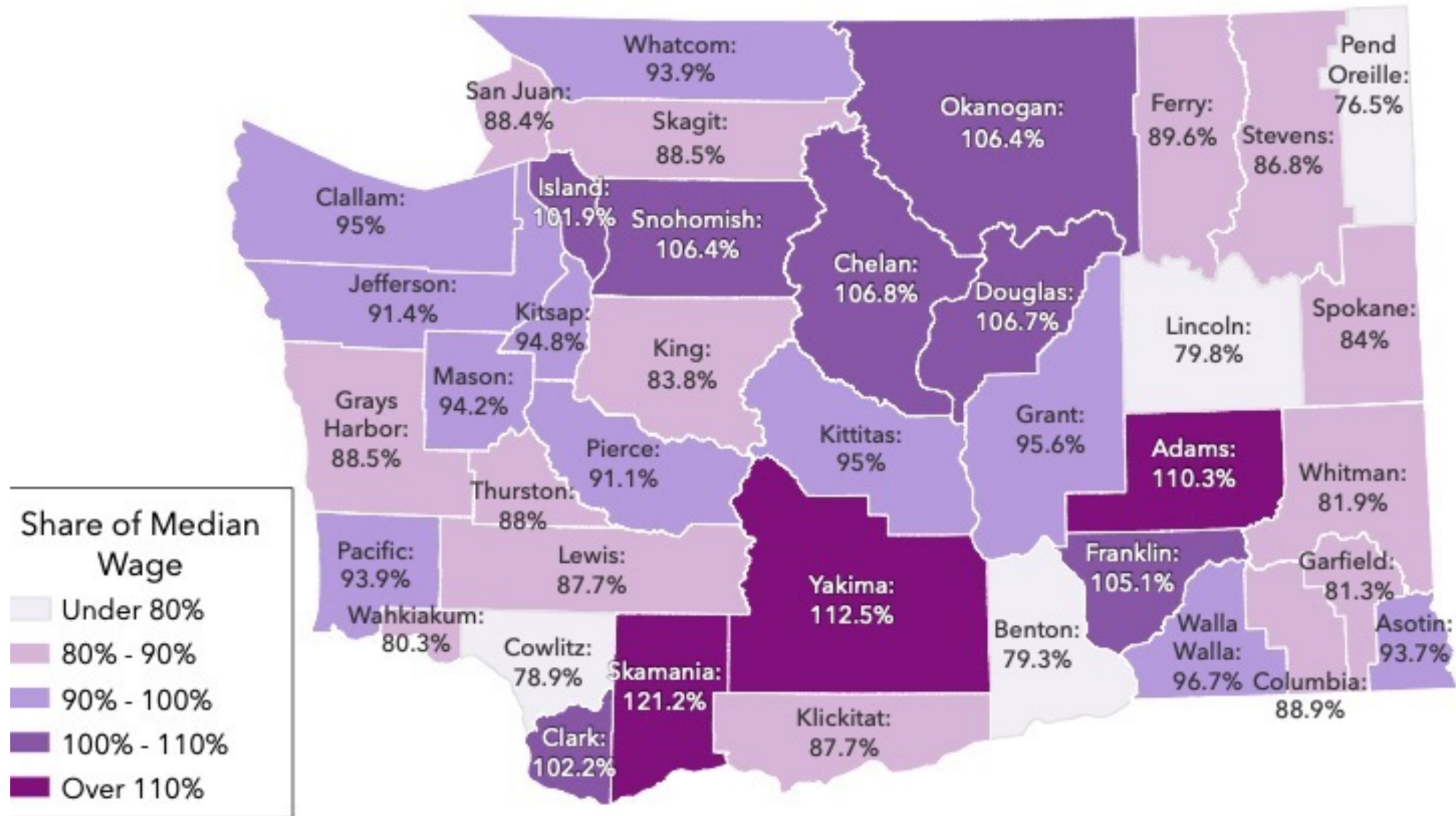
*In Norway the ratio is 1*

# Report outlined hourly living wage by county for quality jobs threshold



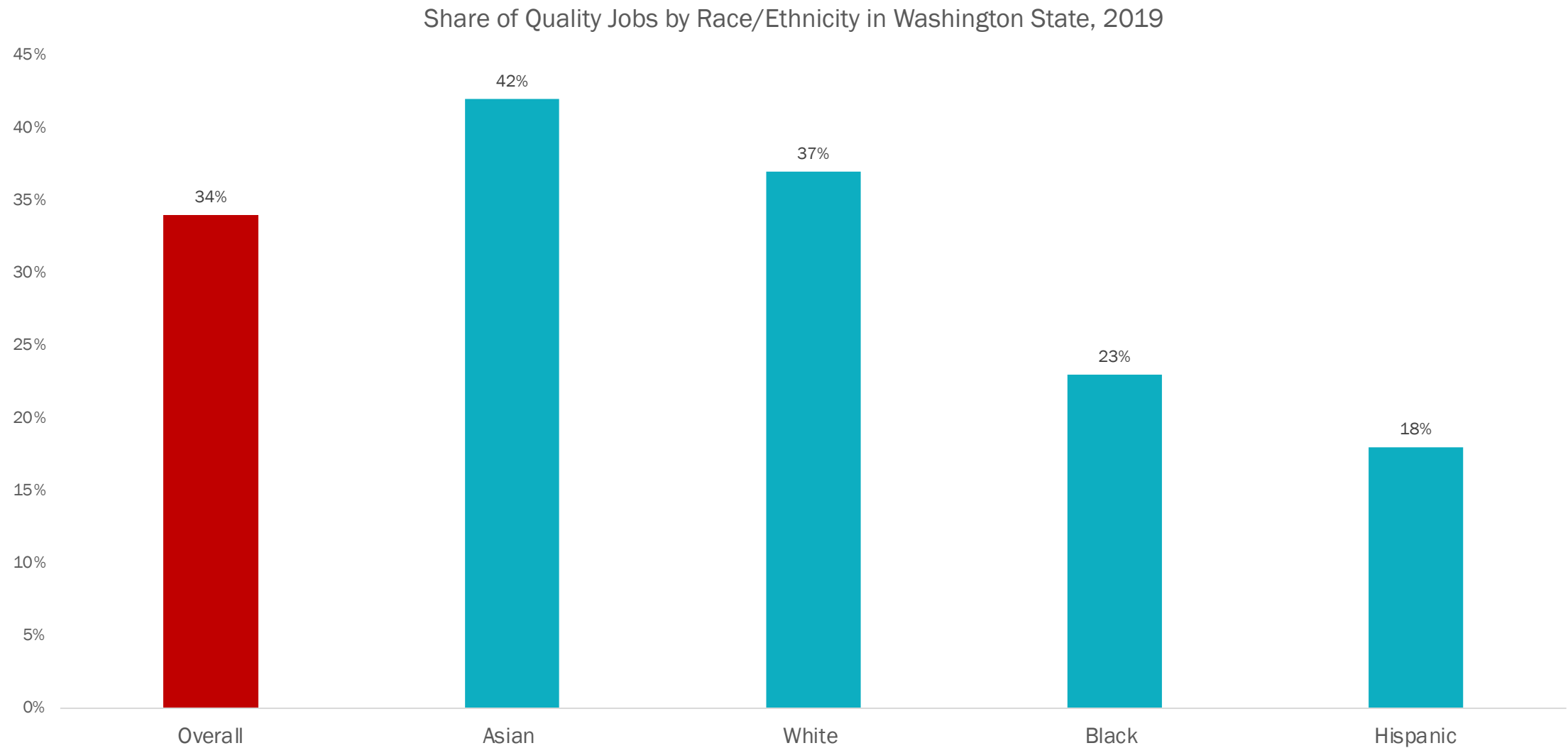
# Statewide the quality job wage is 91% of the median wage

## Quality job wage as a share of county median hourly wage

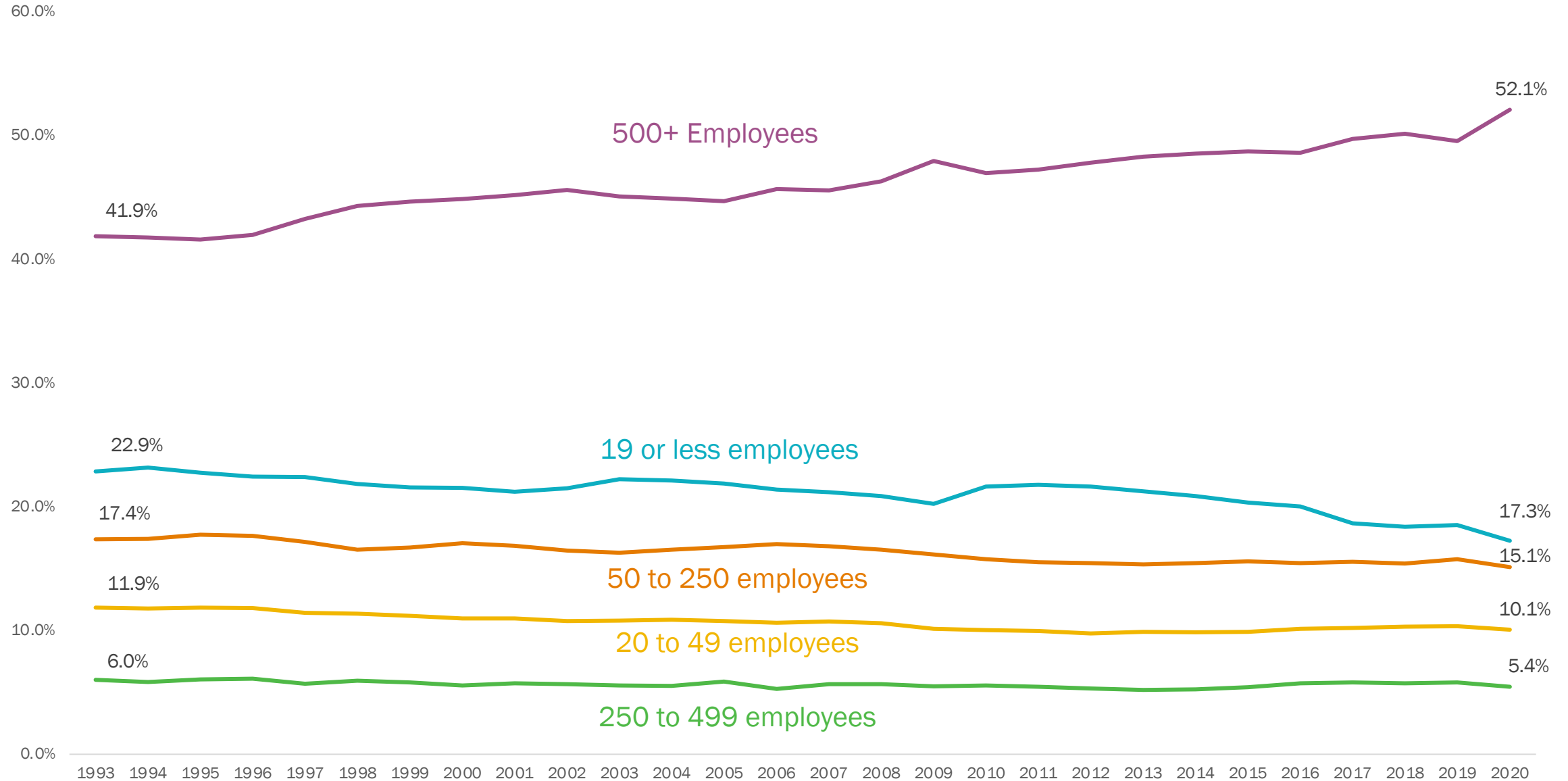




# Share of quality jobs varies by race/ethnicity statewide in WA



# WA share of employment in large companies growing fastest since 1990



# How can we identify high growth potential businesses?

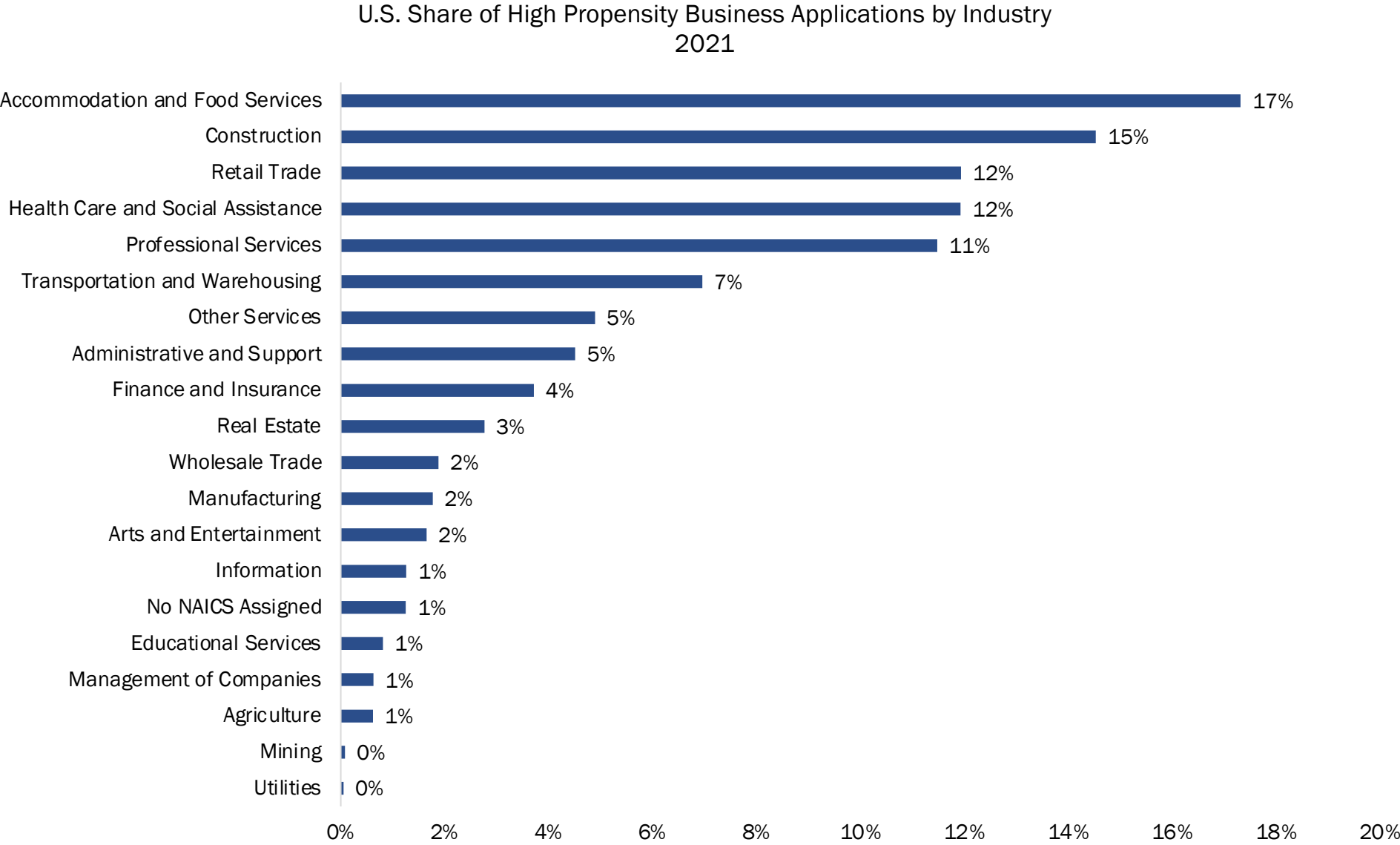
•**High-Propensity Business Applications (HBA):** Business Applications (BA) that have a high propensity of turning into businesses with payroll. The identification of high-propensity applications is based on the characteristics of applications revealed on the IRS Form SS-4 that are associated with a high rate of business formation. High-propensity applications include applications:

- (a) for a corporate entity, and
- (b) that indicate they are hiring employees, plus
- (c) that provide a first wages-paid date (planned wages);

**or**

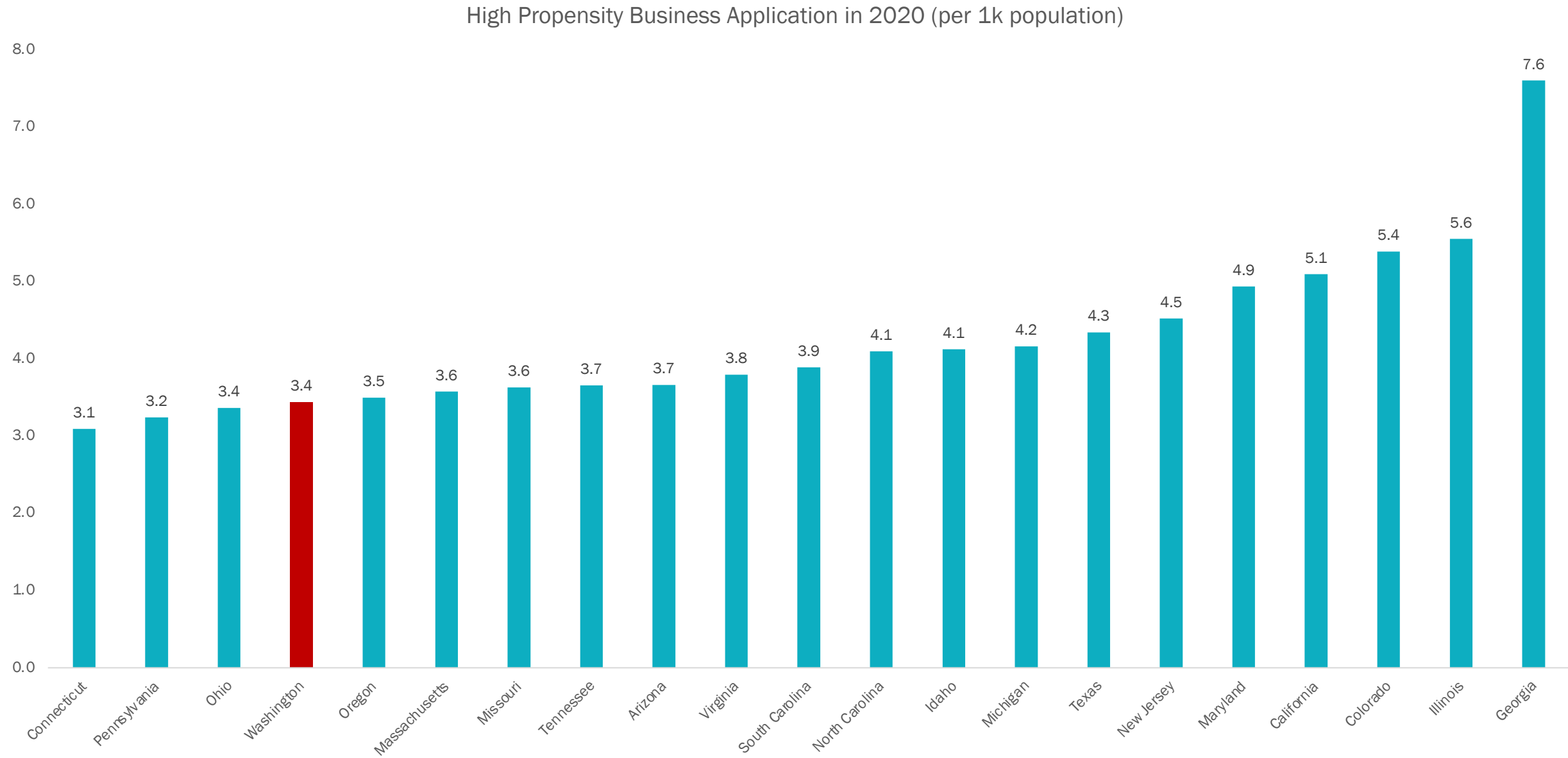
- (d) that have a NAICS industry code in accommodation and food services (72) or in portions of construction (237, 238), manufacturing (312, 321, 322, 332), retail (44, 452), professional, scientific, and technical services (5411, 5413), educational services (6111), and health care (621, 623).

# Distribution of newly formed high growth potential business by industry



Source: Business Formation Statistics, U.S. Census

# WA high growth potential business formation down 30% from early 2000s



Source: Business Formation Statistics, U.S. Census

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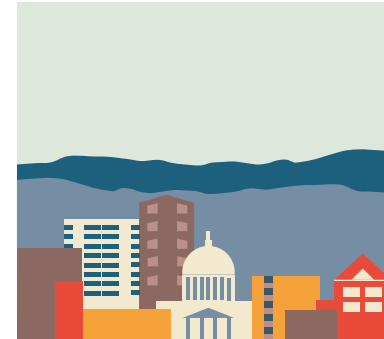
Los Angeles



Portland



Seattle



Boise